Skipton Group

Climate-related Financial Disclosures

2024

Introduction

Climate change is happening right now, and its impacts are being felt across society at an unprecedented scale. At Skipton Group, we recognise the significant environmental challenges facing our planet and the important role we must play in helping to address them. We understand the importance of encouraging and supporting efforts to enable at-scale decarbonisation of UK homes and the need to continually assess and manage the environmental impact of our operations.

We support the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). Over the coming pages we present information against the four pillars of the reporting framework: governance, strategy, risk management, metrics and targets, and the 11 recommended disclosures. The disclosures have also been prepared in line with the regulatory expectations set out in the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'.

Climate risk is defined as a principal risk, presenting both risks and opportunities for our Group and our customers. This report details our impact on the climate through our operations and activities, and our view of the impact that climate change has on the Skipton Group and its strategy.

Introducing the Skipton Group

The Skipton Group primarily comprises of:

- Home Financing and Money businesses within the Society;
- Mortgage lending and deposit taking by Skipton International; and
- Buying, selling and renting of homes through Connells Group.

These three key business lines support delivery of our purpose; to help more people have a home, help people save for life ahead and support long-term financial wellbeing.

Alongside our primary businesses and supporting a thriving business model, the Group also includes Other Business Lines.

In total, the Skipton Group has consolidated total assets of over £39bn, over 1.2 million members and a c.10% share of the UK estate agency market (based on available properties).

Skipton Building Society (the Society)

Skipton Building Society is the UK's fourth largest building society, offering mortgages, savings and financial advice with a national presence represented by a network of 82 branches. Skipton Building Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

Skipton International (SIL)

SIL carries out mortgage lending in the Channel Islands and buy-to-let lending in the UK, and accepts deposits in Guernsey from an international customer base. SIL is licensed under the Banking Supervision (Bailiwick of Guernsey) Law 2020, as amended, and regulated by the Guernsey Financial Services Commission.

Connells Group

Connells Group is the UK's largest high street estate agency and property services group with a c.10% market share in its estate agency arm. Across over 80 brands and its network of over 1,200 branches nationwide, Connells Group combines residential sales and lettings with a range of consumer and corporate services. This includes land and new homes, mortgage services, conveyancing, auctions, surveying and valuations, commercial property services through Lambert Smith Hampton, Energy Performance Certificate (EPC) provision and asset management.

Other Business Lines

We have other smaller business interests that are not separately reportable, primarily concerned with income generation and enabling capability to support delivery of our collective Group purpose. These smaller businesses are combined within the 'Other' category in our financial reporting, together with the impact of Group consolidation adjustments. These include:

- Skipton Business Finance (SBF) – provides invoice financing and bad debt protection to small and medium-sized enterprises.
- Jade Software Corporation – based in New Zealand; specialising in digital and large IT enterprise solutions globally. Jade provides the Society's core database and software development language.

Governance

Governance across the Skipton Group around climate-related risks and opportunities.

Governance

Effective, accountable and transparent governance remains critical to us. We achieve this through oversight of climate-related financial risks and opportunities across the Society and the wider Group.

1. Board oversignt of climate-related risks and opportunities

The Society's board has delegated the oversight of climate-related risk for the Society and its subsidiaries to the Board Risk Committee, although ultimate oversight continues to reside with the Society's board of directors.

Board Risk Committee (BRC)

In 2024, the BRC was informed about climate-related issues on three separate occasions. Recent areas of focus include assessment of:

- Group climate risk scenario analysis results;
- mortgage credit risk management information; and
- credit risk appetite limits.

Board Remuneration Committee (RemCo)

Environmental, Social and Governance (ESG) performance is linked to remuneration through the Single Variable Pay Arrangement (SVPA), the discretionary annual bonus plan in which the executive directors and selected members of the Group Executive Committee participate. Further information on the responsibilities and oversight of the RemCo can be found in the Group's 2024 Annual Report and Accounts.

Board Audit Committee (BAC)

The Committee is responsible for review and approval of external sustainability reporting including the annual Climate-related Financial Disclosures.

Board Training

A dedicated climate-related risk training session, led by external specialists, was held during 2024 to equip the Board with the knowledge required to support effective oversight of our response to climate-related risks.

2. Management's role in assessing and managing climate-related risks and opportunities

The Group Executive Committee and the boards of subsidiaries are responsible for the proactive management of the financial and operational risks arising from climate change – and the strategy to mitigate these risks. Climate-related risks are overseen by the Society's Executive Risk Committee which has a reporting line into the Group Executive Committee.

The Society has embedded capabilities to meet the requirements of the Prudential Regulation Authority's (PRA) Supervisory Statement 3/19 (SS3/19) 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'.
In November 2023, a new target operating model was implemented. As a result, in 2024, Senior Management Function responsibility for the identification and management of the financial risks from climate change transferred from the Group Chief Risk Officer to the Group Chief Financial Officer.

Group Climate Change Risk Forum

The Group Climate Change Risk Forum (CCRF) includes senior representation from around the Group and meets on a periodic basis. The forum coordinates activity associated with the identification, assessment, and monitoring of climate risk. During 2024, the CCRF members reviewed the key physical and transition risks to which the Society and the Group are exposed and monitored the actions arising from the PRA's 'Dear CEO' and 'Dear CFO' letters relating to climate change risk.

Stress Testing Steering Committee

The Stress Testing Steering Committee is responsible for review and challenge of the design of the climate risk scenarios, the assumptions applied and the outputs. The Board Risk Committee provides final approval of the outputs.

Group Sustainability Committee

This year, we established the Group Sustainability Committee (Group SusCo) to provide executive oversight and monitoring of the delivery of the Group's approach to sustainability, including our approach to achieving net zero. During 2024, the Group SusCo received an update on the climate-related risk scenario analysis results and provided input into the Group net zero targets.

Further information on the governance of sustainability matters can be found in the 2024 Group Sustainability Report.

Group companies

Connells Group operates an Audit and Risk Committee which reports directly to the Connells board and management responsibility for financial risks from climate change is allocated to the Connells Interim Chief Finance and Commercial Officer. For the other main subsidiaries, management responsibility sits with the CEO and the respective boards.

Our Regulators

As a large financial services firm, the Society is regulated by:

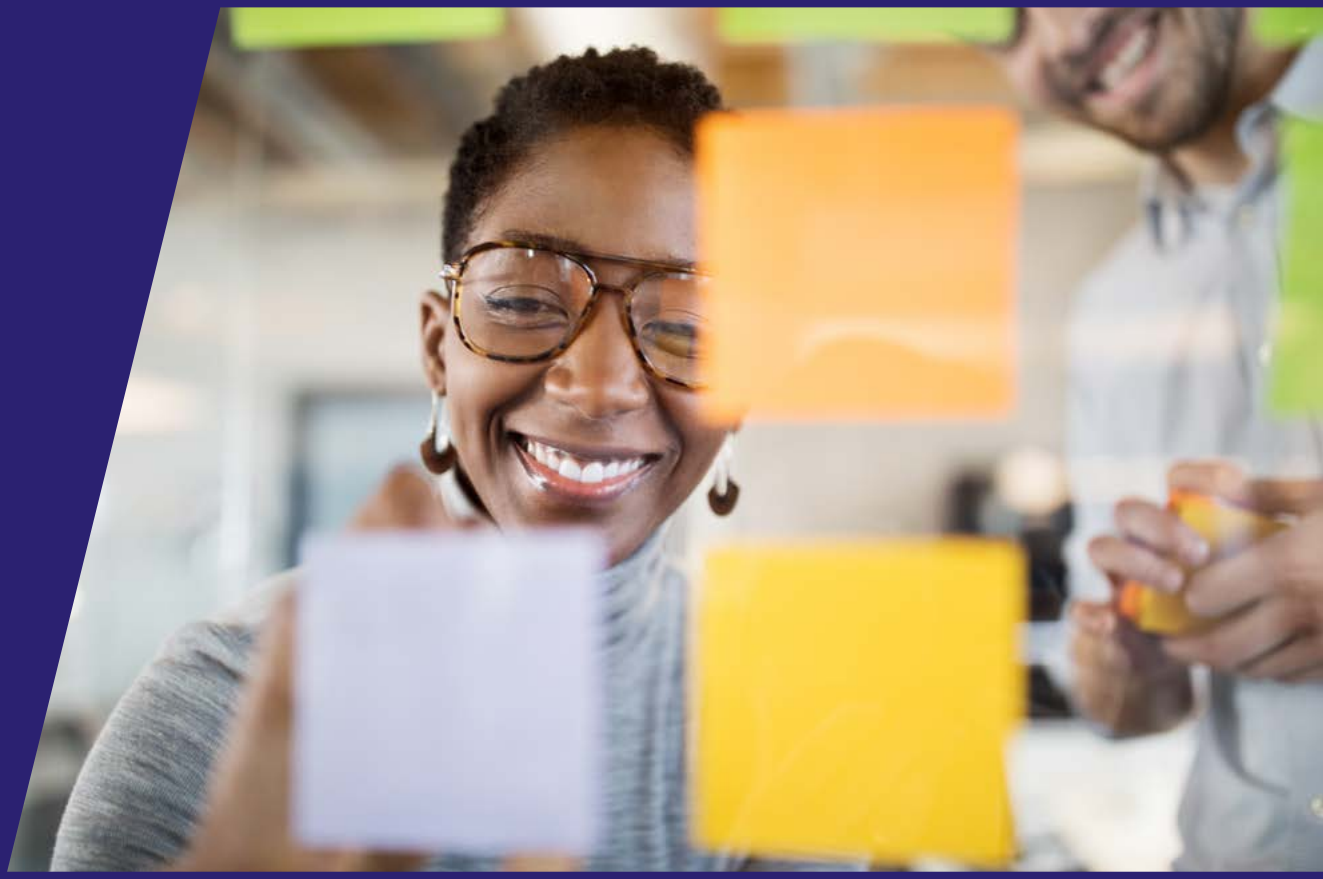
Financial Conduct Authority (FCA) – The FCA principally focuses on achieving the right outcomes for customers via our conduct and provision of services. It has supervisory and enforcement powers, so could issue fines if we are actively in breach of any of the conduct rules. As a business, we have dedicated teams to review our alignment with regulatory expectations and to protect us from risk of delivering poor customer outcomes and regulatory non-compliance.

Prudential Regulation Authority (PRA) – The Bank of England prudentially regulates and supervises financial services firms through the Prudential Regulation Authority (PRA). The PRA creates policy for regulated firms to follow, with focus on controls to mitigate financial risks and the maintenance of adequate levels of capital resources.

In addition, SIL is regulated by the Guernsey Financial Services Commission.

Strategy

Actual and potential impacts of climate-related risks and opportunities on Skipton Group's businesses, strategy, and financial planning.



Strategy

Climate change presents both risks and opportunities to the Group and our members and customers. We recognise the importance of limiting our impact on the environment and managing the associated risks effectively.

3. Climate-related risks and opportunities the organisation has identified over the short, medium, and long term

The impact of climate change on our members and customers, their homes and the financial stability of the Group has the potential to be significant.

Climate risk can be split into two broad themes: physical and transition risk.

- Physical risk arises from the impact of extreme weather events (e.g. flooding) or longer-term shifts in the climate. It's widely accepted that climate change will accelerate these risks.
- Transition risk arises from the process of adjusting to a low carbon economy. This could have a wide-ranging impact. For example, financial asset values, policy or regulation.

During 2024, members of the Climate Change Risk Forum (CCRF) completed a review of the key climate-related risks that are likely to impact the Group over the short, medium and long term. This included assessing any new or evolving risks. The table on pages 9-11 summarises the key climate-related risks identified (split into transitional and physical risk), the key mitigants in place to manage the risks and the following time horizon has been assigned to each:

- Short term: < 5 years, aligned with the Group's financial planning horizon.
- Medium term: 5-10 years, covering the main horizon for key transition risks.
- Long term: 10+ years, covering the future position, including key physical risks.

The assessment considered both the likelihood of risk crystallisation – and the potential risk impact to the Group and our members and customers.

The most significant risks are primarily focused on the impact of climate change on our residential mortgage portfolio. Scenario analysis identified that forecast credit losses arise primarily from second order macroeconomic impacts from climate change – such as price inflation and global instability – rather than physical or transition risks. Based on our current modelling, the impact of physical climate risks to the Society's residential mortgage portfolio is reduced due to limited exposure in areas specifically prone to flooding or coastal erosion. While the transition costs from energy efficiency impact most properties, lower portfolio loan to values (LTVs) provide protection to exposure to loss events, from reductions in property valuations.

Principal Risk Area	Time Horizon	Potential risks identified	Key mitigants / initiatives
Credit Risk			
Transition	Short/ Medium term	Increased mortgage defaults, capital, and impairment due to: **Cost of home energy efficiency improvements:** impacting member and customer affordability or increased energy bills if no home improvements are completed, compounded by the cost-of-living crisis and potential increase of home insurance. **Regulation and policy (e.g. new EPC standards):** uncertainty over future government policy or regulation changes for lenders and homeowners, or impact on the profitability of more carbon intensive industries.	– Additional borrowing products available for existing members who are looking to make energy efficient home improvements. – Free EPC Plus for Society members and colleagues which includes advice on how to improve the energy efficiency and carbon footprint of homes. – Horizon scanning for regulatory and industry changes. – Engaged with key trade bodies to understand direction of travel, issues and timelines. – Annual climate risk scenario analysis of physical and transition risks in the mortgage book with results considered as part of our capital and impairment assessments. – ICAAP conducted at least annually. – ESG risk monitoring for our wholesale counterparties. – Lending Policy controls. – Requirement for building insurance for all mortgage customers. – Physical inspection of higher loan to value properties with known flood risk or risk of coastal erosion. – Concentration limits enhanced to consider flood risk. – Credit risk appetite limits and regular portfolio monitoring. – Monitor EPCs of mortgage portfolio.
	Medium term	**Higher unemployment:** driven by the transition away from carbon intensive industries, exacerbated by potential lack of investment/training in alternative, greener industries. **Changing member and customer preferences:** impact on house prices as energy efficient housing becomes more desirable, impacting both owner-occupiers and buy-to-let landlords.	
Physical	Medium/ Long term	**Asset damage:** increased severity and frequency of physical risk perils such as flooding, subsidence, wildfires, heatwaves or coastal erosion, leading to a decrease in property and asset values.	
Operational Risk			
Transition	Short/ Medium term	**Skills and talent capacity:** risk of lack of skills within the business to manage and monitor climate risks.	– Periodic training on climate risk. – Buildings insurance for all Group owned premises. – Remote working capabilities for our colleagues. – Operationally resilient business to continue to provide important and critical business services to our members and customers at all times. – Business continuity plans and regular testing carried out. – Operational risk considered within the Pillar 2A assessment. – The Society are working with EcoVadis, a sustainability ratings provider, to assess the sustainability standards within our supply chain.
Physical	Medium/ Long term	**Business continuity:** increased operating costs due to damage to premises and infrastructure also leading to disruption for members, customers and colleagues.	
Transition and Physical	Medium/ Long term	**Supply chain disruption:** increased costs due to higher likelihood of interruption to goods and services, or cost of switching to a supplier with a lower carbon footprint.	

Principal Risk Area	Time Horizon	Potential risks identified	Key mitigants / initiatives
Legal and Conduct Risk			
Transition	Medium/ Long term	**Climate-related disputes (including litigation and regulatory investigations):** due to perceived mis-selling of sustainability products or an increase in professional indemnity insurance claims against the Group's survey, valuation and conveyancing businesses, also negatively impacting reputation.	– Our three lines of defence provide ongoing monitoring and assurance over processes and controls and the delivery of good customer outcomes to our members and customers. – Compliance monitoring reviews. – Customer outcomes testing. – Colleague training.
Model Risk			
Transition	Short/ Medium term	**Increased model complexity and weakness:** poor data quality and modelling climate risks over longer time horizons can cause weaknesses or failure in model design or use, leading to financial losses or poor business decisions.	– All material models: • go through a formal review and approval process; • have a robust change control process; • undergo a consistent model, development and validation process; and • are monitored routinely and reviewed periodically in line with a risk based timetable.
Reputational Risk			
Transition	Short/ Medium term	**Changing expectations:** lack of sustainability product offerings, poor comparison to peers or association with businesses with low or poor sustainability standards. This may lead to a member and customer boycott of the Society as well as franchise risk, as they may opt to leave the Group.	– Use direct member and customer feedback and research to inform strategic planning, campaign development, product and customer journey design. – Governance and controls over product propositions. – Closely monitor external environment.

Principal Risk Area	Time Horizon	Potential risks identified	Key mitigants / initiatives
Market, Liquidity and Wholesale Funding Risk			
Transition	Short/ Medium term	**Increased ratings agency scrutiny:** regarding commitment to ESG and potential for emphasis to be placed on this for overall ratings. **Wholesale funding sources:** inability to access funding as issuance becomes more linked to green and social initiatives.	– Climate-related Financial Disclosures and Group Sustainability Report outlining governance and management of sustainability matters, including how climate risks are managed. – Regular review and monitoring of wholesale counterparties and external markets. – Market interest rate movements are actively monitored and managed. – Market Risk considered as part of the Group's ICAAP. – Range of limits and risk appetite requirements, defined within the Treasury Policy, are regularly assessed and managed. – Regular stress testing. – ILAAP and Recovery Planning conducted at least annually.
	Medium/ Long term	**Asset valuations:** climate-related risks could cause a reduction in financial asset values, a breakdown in correlation between assets and/or a change in market liquidity for certain assets.	
Physical	Medium/ Long term	**Lower global economic output:** adverse movements in market interest rates and risks to economic growth could negatively impact our proposition and financial stability. It may also impact the UK housing market, which is closely correlated with the general strength of the UK economy.	
Business Risk			
Transition	Short/ Medium term	**Competition and demand:** increased competition or disruption due to new entrants in the market, or sustainability product innovations from existing organisations. Failure to keep up with market innovations could impact overall demand for Group products and services.	– Closely monitor external environment. – Governance and controls over product propositions. – Corporate planning and key strategies to address business risks. – ICAAP and Recovery Planning conducted at least annually. – Horizon scanning for regulatory and industry changes. – Review the Group's pension risk strategy, at least annually. – Regular monitoring of the pension obligation position and key pension risk metrics.
Transition and Physical	Medium/ Long term	**Increased costs:** taxes/levies introduced to fund transition to a low carbon economy and to protect against physical risks. More frequent physical risk events may increase insurance premiums and repair costs.	
	Long term	**Pension asset valuations:** increased likelihood of physical or transition risks affecting pension asset valuations – leading to risk of increased deficit or reduced surplus.	

4. Impact of climate-related risks and opportunities on organisational business, strategy and financial planning

The Group has considered the impact of transitioning to a low-carbon economy and the physical risks from climate change. Consideration was given to the impact of climate risks on our Group going concern assessment. An assessment of climate change on the Society's financial statements has also been conducted. Separately, Connells has considered the financial impact of the risks on its income and costs, business strategy and financial planning.

While climate-related risk may impact our business model in a range of ways, the most material potential impact relates to credit risk in our residential mortgage portfolio. Changes in climate have the potential to increase the frequency and severity of physical risks. This could lead to an increasing number of properties subject to physical flooding or subsidence. This could potentially result in a decrease in the valuation of the property used as collateral to mitigate mortgage credit risk. In addition, transitional risks associated with progress towards a net zero economy could lead to reduced property valuations or affect a borrower's ability to service their mortgage loan.

The Society has set quantitative Credit Risk Appetite limits to manage the financial risks from climate change. Limits are in place for the physical and transition risks identified as high-risk from the annual scenario analysis activity. We manage our climate risk exposures where possible, including enhancing our lending controls for flooding and coastal erosion to provide further physical risk mitigation. We continue to monitor Energy Performance Certificate (EPC) transition risk to track mortgage portfolio property retrofitting.

Supporting the transition to lower emission homes

We are continuing to review our own carbon footprint and work towards net zero. We believe we can also play our part in helping our UK members and customers in decarbonising by:

- helping them to understand the opportunities to retrofit their homes, sharing experiences from our own Big Retrofit project;
- through continued exploration of ways for them to access specialist services that could support them in making retrofit home improvements;
- offering the financial support available to help them retrofit their properties or to buy new energy efficient homes; and
- influencing policy decision making and change across the housing sector.

With our end-to-end view of the housing market, we are in an advantageous position for identifying new opportunities, partnerships and innovations that could support members and customers wanting to decarbonise and improve the energy efficiency of their homes. We want to encourage them to make appropriate choices when it comes to making their homes more energy efficient and in lowering their heating emissions. We recognise, however, that our progress in these areas remain heavily reliant on the UK government and clear, early policy intervention to help change home building, landlord and homeowner behaviours.

We acknowledge that we do not possess all the necessary knowledge, expertise and ability to address the range of difficulties in the retrofitting market. There are multiple factors involved in the successful delivery of residential retrofits, and we continue to improve our understanding of their varied roles and responsibilities all the time. Therefore, our primary focus will be on those areas where we can make the most significant contributions.

In November 2023, we announced our plans to conduct a residential retrofit project, together with academic partners Leeds Beckett University and Leeds University, to a house owned by the Group in Skipton. Since then, the study so far has helped the Group to develop a deeper understanding of the costs, behaviours and experiences faced when undertaking a retrofit and to identify potential opportunities for the Group to support members, customers and colleagues who want to retrofit their own homes. We recognise that the costs of retrofit remain high for many, especially during a rising cost-of-living. We also recognise that we are not the retrofit experts ourselves, and that there is a broad supply chain of stakeholders who are qualified to deliver that role on retrofit advice. So, through the ongoing project, we will continue sharing our first-hand experiences of retrofitting, to make knowledge of our journey, including the costs and broader considerations, more accessible to a cross-section of members and customers.

Enhancing our financial products and proposition to drive uptake of more energy efficient, lower carbon homes

We will continue to explore ways the home financing and property services businesses can reward members and customers who take steps to retrofit their home. Or for those who seek to purchase less carbon intensive homes.

We continue exploring ways, both internally and through strategic partnerships, to provide innovative finance across all incomes and home types to actively reduce the carbon footprints from heating homes. An element of this will involve growing our insights into the impact of home retrofit activity on property valuations, as well as the customer journey to retrofit, as part of our retrofit project.

Grow member, customer and colleague understanding of home retrofit and energy efficiency opportunities

We will continue to offer all Society members free home EPC Plus reports through our Connells Group, Vibrant Energy Matters, who will in turn offer advice to Society members on retrofitting methods.

There remains a lot of uncertainty around the impact improvements to home energy efficiency ratings might have on property prices. In the rising cost-of-living environment, there's strong rationale for why more energy efficient properties may appeal to owners and tenants.

Existing homes can be retrofitted to improve energy efficiency. For example, by installing insulation, double or triple glazed windows. Or introducing an alternative source of heating, such as a heat pump. There are some case studies where retrofitting homes have improved sale prices relative to those which have not, although it is unclear whether this trend will be sustained over the longer term and to what extent value increases are driven by retrofit works or other property upgrades done alongside them. The cost of transition remains a barrier to many. It could risk creating a two-tier housing market without appropriate support if the energy efficiency of a property influences the valuation. While Vibrant Energy Matters provides advice to Society members in relation to retrofitting, the Skipton Group do not require Society members to act on this advice and continue to work closely with members to allow products to remain accessible and affordable.

Supporting buy to let (BTL) landlords to decarbonise their rental portfolios

All our BTL landlords continue to have access to up to 10 free Vibrant EPC Plus reports to help them understand how to make energy efficiency improvements to their portfolios. We will continue to work closely with landlords to help them finance the cost of improvements so that rental properties remain accessible and affordable and landlords are prepared for compliance with proposed regulation requiring a minimum property EPC band of 'C' by 2030.

5. Resilience of the strategy, taking into consideration different climate-related scenarios, including a below 2°C scenario

To help inform our strategic planning and determine the impact of the financial risks from climate change on our overall risk profile, we perform dedicated climate risk stress and scenario testing. Dedicated quantitative climate risk stress testing on the Group's credit risk management was conducted across four climate risk scenarios, including a below 2°C scenario. The scenario narrative was created by the Group, informed by climate pathways from the Network for Greening the Financial System (NGFS) scenarios and the Bank of England Climate Biennial Exploratory Scenario (CBES).

The Late Action scenario is similar to the Bank of England CBES scenario where a macroeconomic shock occurs from a late and disorderly transition in the early 2030s. The No Additional Action Severe and Too Little Too Late scenarios are internally developed scenarios, to capture more significant second order economic impacts in addition to the physical risks. The counterfactual scenario is a climate agnostic scenario which is used for comparative purposes. Please see the table on page 15 for more information.

The review included assessing the residential lending portfolio at a property level to determine the potential impact of key climate-related physical and transitional risks. A quantitative assessment of IFRS9 Expected Credit Losses (ECL) for the credit risk in the residential mortgage portfolio (excluding equity release) was also performed. In addition, Connells Group considered the relevant scenarios and performed quantitative modelling of a below 2°C scenario. They used additional assumptions for the volume of properties sold.

When assessing the impact of climate change, the risks fall into three broad categories:

- Physical risks arise from the impact of extreme weather events or longer-term shifts in the climate. Our analysis focuses on the risk of climate perils (flooding, coastal erosion and subsidence) impacting property valuation or a borrower's ability to service debt.
- Transition risk arises from the process of adjustment towards a low carbon economy. Our analysis focuses on the potential impact of borrowers being required to improve the energy efficiency of their properties to meet government targets. The cost of improving home energy efficiency is quantified in terms of a potential reduction in property valuations.
- Macroeconomic risks represent the second order impact of physical or transition risks on unemployment, property prices, interest rates and inflation.

The severity of the physical risks used in our scenarios are set out by the Intergovernmental Panel on Climate Change (IPCC) greenhouse gas concentration trajectories, and the Representative Concentration Pathways (RCPs)[1].

[1] IPPC Fifth Assessment Report (AR5), 2013

The Society and SIL performed quantitative climate change scenario analysis on the credit risk impacting their residential mortgage portfolios. Connells Group have conducted quantitative scenario analysis by considering the forecast macroeconomics in the Late Action scenario, as well as the impact of reductions in both house price and housing transactions on profitability. High-level qualitative analysis has been conducted for other less material exposures. Skipton Group's climate risk scenario analysis methodology continues to evolve as our knowledge, experience and access to data increases.

The damage to mortgage assets is the key physical risk from climate change considered in the scenario analysis. The physical risk perils included are flood risk, subsidence risk and coastal erosion. Physical risk peril data at specific property level is provided by Twinn, part of Royal HaskoningDHV.

Climate change, and the policies to mitigate it, will occur over many decades. To ensure both short- and long-term impacts are considered, credit risk scenario analysis impacts have been assessed at 2030 and 2050.

The No Additional Action Severe scenario follows the RCP 8.5 emissions scenario. Climate scientists' project that under the RCP 8.5 scenario global temperatures relative to pre-industrial times are likely to reach an average of 4.3°C by 2100. As the most material impacts are likely to occur later in the century, the Too Little Too Late and No Additional Action Severe scenarios have been calibrated so the physical risks forecast to materialise by 2080 are considered in the scenario analysis impacts for 2050. This approach remains consistent with regulatory guidance provided in the CBES.

Flood risk is assessed by forecasting the impact of each climate change scenario on the combination of fluvial (river), pluvial (surface water) and tidal (coastal) flooding using the Met Office's UK Climate Projections (UK CP18). The assessment applies advanced hydrological modelling techniques and flood defence information. This is to project the flood depths and damage, based on different return periods. All of the results are combined into a flood risk rating for each property, based on each climate scenario and forecast time period. These outputs, provided by Twinn, are applied as an impact on property values using stressed assumptions. They are also informed by historical impacts on house prices from flood events.

SIL have collaborated with Twinn to commission an aerial survey of the Channel Islands using Light Detection and Ranging (LiDAR) technology. This has enabled development of enhanced flood risk model data for use in scenario analysis.

Subsidence risk focuses on the hazard of shrink-swell. This can impact building foundations, causing the most common form of subsidence. Climate change in the UK is expected to create wetter winters and drier summers – which increases the likelihood of shrink-swell. Twinn create a subsidence risk score based on GeoClimate data from the British Geological Survey. It identifies the potential for clay shrink-swell to occur at a given location, during a given future time period, based on a combination of geological, hydrological and climate projection data. Subsidence risk has been applied as an impact to the property valuation. It assumes the highest risk properties require material remediation works (underpinning), which impacts the valuation due to buyer perception of the future risks.

The risk from coastal erosion is modelled by Twinn, based on identifying the current distance to the coast and calculating the annual erosion rate. A conservative view has been taken to model this. If any coastal erosion risk exists in the forecast outcome year, the valuation depreciates to zero and default occurs, incurring a loss at least equal to the current balance. It is assumed that home insurance will lapse due to increasing premiums or no cover being offered. As the erosion risk increases over time, the property price will be impacted well in advance of the event.

Climate risk forecasting for physical risk perils is complex, due to many uncertainties. The data provides an informative view of the potential impact on individual properties under different climate change emission scenarios. Forecasting the impact of each climate emission scenario over multiple decades is multifaceted. The forecasts take into account current topography, infrastructure and government policies, such as flood and coastal defences. These considerations, among many others, will inevitably change over time – impacting the climate forecasts.

The key transition risk considered is from retrofitting UK properties to improve energy efficiency. EPCs are currently the best source of information to assess the energy efficiency of UK properties. However, they have several limitations, including properties without an EPC, and information not being updated unless another survey is carried out. To support the take-up, the Society is offering all members a free EPC report. In line with regulatory guidance, the Society and SIL have modelled this transition risk as an impact on property value. Transition costs are applied based on achieving a target EPC rating which varies depending on the scenario. For example, in 2050 the Late Action and Too Little Too Late scenarios target EPC B and C respectively. The cost of transition, heat pump installation and government subsidies as part of the annual scenario analysis activity.

Skipton Group's Climate Scenarios

Counterfactual	Late Action	Too Little Too Late	No Additional Action Severe
No impact of climate change and no transition – in effect this is a baseline position used for comparison purposes.	Late and more punitive government intervention is applied to achieve the 2050 net zero target. Greenhouse gas emissions are limited to keep global warming below 2°C, but due to government policy intervention being delayed until 2030, the transition is disorderly. This leads to greater transition risk and a macroeconomic shock in the early 2030s.	Global transition is disparate and disorderly with many countries missing net zero targets leading to global temperatures exceeding the Paris Agreement, rising by more than 2°C.	Global governments take no further targeted action to reduce greenhouse gas emissions, resulting in rising global temperatures in excess of 3°C by the end of the scenario, causing the most severe physical risk impacts. The macroeconomics capture a more extreme, but plausible outcome from the impacts of rising global temperatures.
Emissions scenario Not applicable	Emissions scenario Low RCP 2.6	Emissions scenario Medium RCP 6.0	Emissions scenario High RCP 8.5
No change on physical, transition and economic risks.	Low physical risk High transition and economic risk	Medium physical and economic risk High transition risk	High physical and economic risk Low transition risk

Low risk Medium risk High risk

Scenario analysis outcomes

The Group has combined detailed quantitative analysis with qualitative assessments where appropriate for exposures regarded as less material. This is aligned to PRA expectations, which note that a firm's approach to managing the financial risks from climate change should mature over time. They should also be proportionate to the nature, scale and complexity of the business. The credit risk outputs are detailed and provide indicative quantitative results to help us understand our climate risk over the short and long term.

The Group's scenario analysis outputs for the residential mortgage portfolio show that – by including more severe macroeconomics – the physical risks have a greater financial impact than the transitional risks over the longer term. The impact of more severe macroeconomics inflating account level default risk, combined with climate discounted property valuations, has a larger effect on modelled expected credit losses (ECL) than the transition risk scenarios.

By 2030, under each scenario, ECLs are predicted to rise. The increase is greatest in the Late Action scenario, as a result of macroeconomic effects due to the disorderly transition, rather than the discounts applied to house prices due to physical or transition risks. The date and magnitude of this macroeconomic impact is uncertain. The Government have demonstrated an increased focus to support a net zero transition. However, this is complex and requires clear plans, investment and collaboration across multiple industry sectors. The reintroduction of the proposed requirement for Buy-to-Let properties to be a minimum EPC rating C by 2030 could introduce some transition risk to Skipton Group as result of a contracting Buy-to-Let sector and a potential impact on house prices from changing demand for more or less energy efficient properties. Overall, the current pace of transition suggests that the more material impacts on the Skipton Group are likely to be later rather than sooner.

Based on our scenario analysis results, the more material effects from climate change occur towards 2050. Particularly in the No Additional Action Severe scenario. This is mainly because of the macroeconomic stress from climate displacement causing mass migration, cost-of-living pressures from escalating fossil fuel prices, and scarcity of resources. These outputs are uncertain when considering the complexity of modelling the financial impacts from climate change. Plus, the sizeable unknowns involved, such as the numerous potential carbon emission pathways, the climate modelling assumptions, and change in mortgage portfolio over several decades. We recognised that scenario analysis outcomes must be viewed in light of any data limitations.

Informing our strategy

We used the results from our quantitative and qualitative scenario analysis assessment to help inform our strategy and management of climate-related risks. Credit risk climate scenario analysis results have been considered as part of capital and impairment assessments. The Society's ICAAP document includes detail on the scenario analysis methodology and outputs. As well as an assessment on whether to hold additional capital for the credit risks from climate change.

Based on current government policies, crystallisation of a climate scenario similar to the Late Action appears the most probable. Therefore, the most significant transition risks which may impact the Society are increasingly likely to occur beyond the five-year corporate planning period.

The short term climate risk scenario outputs do not present a material risk to the Society, with transition risk effects yet to be fully embedded. The worst effects of physical risks are more likely to occur in the second half of this century. The assessment of the residential lending portfolio at property level, to determine the potential impact of key climate-related physical and transition risks, did not lead to a change in carrying amounts as at 31 December 2024.

The Group continues to learn ways to improve our approach to climate scenario analysis by reviewing methodology, assumptions and exploring new data. This is consistent with regulatory expectations and industry practice. Climate scenario analysis remains in a developmental phase. We've made material progress in the data we source, the assumptions we make, the interpretation of outputs and how we embed this in our decision making. The climate scenarios, while assumptive, can helpfully inform the Group's strategic and risk management decision making.

However, we also recognise that climate scenario modelling remains a rapidly developing practice, with significant challenges and limitations remaining. There's a need to be cautious in the use of the data involved. The Society continues to explore data sources and ESG ratings, embedding this into monitoring and assessing the impact of ESG risks on wholesale counterparty creditworthiness. Our ability to understand the Group's operational risks from climate change will continue to improve as we capture more data relevant to this area.

Insights from scenario analysis and climate risk management information will continue to shape the Society's risk appetite and risk management approach. The Society have quantitative Credit Risk Appetite limits for high risk physical and transition risk segments identified by scenario analysis. Proportionate controls to manage the climate risks from mortgage origination were implemented in 2022 and are regularly reviewed. We continue to enhance our data, to better understand and manage our risks.

Climate risk is a known and important concern for the business over the medium to long term, but it is not expected to create material financial risks for the Group in the short term.

Risk Management

How Skipton Group identifies, assesses, and manages climate-related risks.

Risk Management

Managing climate risk across the Group is integrated within our wider governance processes and the 'three lines of defence' risk management model.

6. Processes for identifying and assessing climate-related risk

The Group has developed a Climate Risk Management Framework to support the effective identification, management and monitoring of climate risk. This framework sets out the roles and responsibilities for managing climate risk across the Group. It is integrated within our wider governance processes and the 'three lines of defence' approach to risk management.

First Line of Defence

Each business area has a first line of defence responsibility for their own identification, assessment, management and monitoring of climate change risks. Consideration of climate risk is incorporated into relevant first line processes, risk appetites and control frameworks. With respect to mortgage credit risk, identified as our key climate-related risk, our current controls for managing new lending centre on three key areas. Firstly, a physical inspection of the property for higher loan to values. Secondly, checking any known flood risk. Finally, the risk of coastal erosion.

All of these considerations make up the overall valuation. Any postcode identified as potentially at risk of future coastal erosion requires a desktop or physical survey to capture local knowledge of the risks to each property. The Society's loan conditions require buildings insurance at the point of completion. This provides assurance that the property is insurable at that point in time.

Climate risk is managed in other risk areas through various mechanisms. This includes consideration as part of the Internal Capital and Liquidity Adequacy Assessment Processes, and the inclusion of climate-related risks within our Group Operational Risk Framework. Please see the Strategy section for further information on how our key climate risks are managed.

Second Line of Defence

The Prudential Risk Oversight team is the second line of defence with respect to the management of climate risk. This team provides oversight, coordination, and challenge to the first line. This is to ensure regulatory expectations continue to be met, and that we remain alive to emerging risks and the rapidly evolving external environment.

Third Line of Defence

Group Internal Audit, as the third line of defence, provides independent assurance on the effectiveness of climate risk management in accordance with risk-based assurance plans.

7. Processes for managing climate-related risks

The annual climate risk impact assessment seeks to identify potential risks that could result in financial or reputational damage. This assessment is reviewed by members of the Climate Change Risk Forum (CCRF). Through the CCRF, we review climate-related risks that might impact the Group. We continue to refine and enhance our approach, as new data and best practice emerges.

The assessment to identify risks involves relevant subject matter experts from across the Group. It considers the likelihood of risk crystallisation and potential risk impact to the Group and our customers. We continue to develop a more consistent and collaborative Group approach, as subsidiaries continue to evolve their understanding of climate risk across their individual businesses.

Our ongoing approach to credit risk management is carefully considered, based on experience from our stress scenario analysis. Regular monitoring provides oversight of any emerging concentration risks on the mortgage portfolio. This includes recording any instances where the Society becomes aware that a property is impacted by climate risk, such as flooding, subsidence, or coastal erosion. Climate risk is a known and foreseeable risk where best practice and new information is emerging. The Society continues to be careful and proportionate in our approach. Balancing the risks with any adverse impacts on our members, customers and the wider UK housing market.

The Society's mortgage conditions require insurance at the point of completion which provides assurance that the property is insurable at that point in time. Our concentration risk rules at origination also consider flood risk.

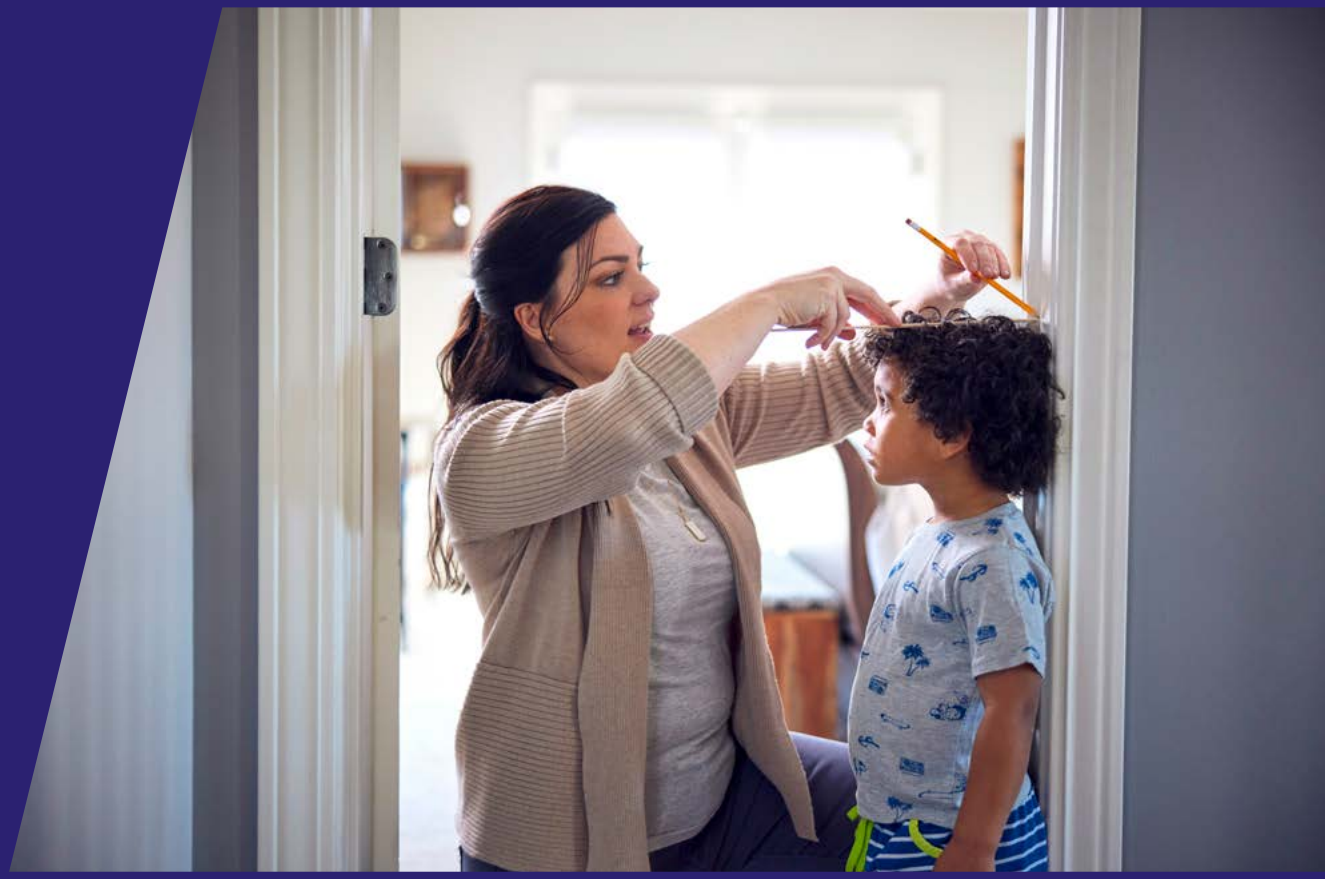
As the Society's distribution strategy via intermediaries is UK-wide, this significantly mitigates geographical loan concentration risk. Our concentration risk rules, which are regularly reviewed, include flood risk. For our SIL buy-to-let UK portfolio, the policy is that we only lend on EPC values A to C. A property with a D rating will be allowed, if it can be improved to be within the A to C banding.

8. How processes for climte-related risks are integrated into overall risk management

We align and integrate our climate-related risk management processes into the Skipton Group's risk management processes. The Group has a formal structure for identifying and managing risks throughout the business. This framework is based on the three lines of defence risk management model – with risks rated on magnitude and likelihood.

Metrics and Targets

Metrics and targets used to assess and manage relevant climate-related risks.



Metrics and Targets

In addition to tracking our greenhouse gas (GHG) emissions, we monitor key physical risk metrics associated with climate change.

9. Metrics and targets Skipton Group uses to assess and manage relevant climate-related risks

The metrics used to monitor climate-related risks are:

- Society mortgage portfolio properties classed in the highest flood risk category.
- Society mortgage portfolio properties classed in the highest subsidence risk category.
- Society mortgage portfolio properties at risk of being impacted by coastal erosion.
- Society mortgage portfolio properties by EPC category assessment level.
- Connells Group professional indemnity claims caused by physical climate change.
- Group scope 1 and 2 GHG emissions.
- Estimations of Group scope 3 upstream value chain emissions.
- Estimations of scope 3 financed emissions for the mortgage portfolio (Society and SIL).

The Society has quantitative portfolio credit risk appetite limits to directly manage physical and transition risks.

Society Physical and Transition Risk Metrics

For the purposes of this report, we have included the Society's residential climate risk metrics only. In addition to tracking our carbon emissions, we continue to monitor key physical risk metrics associated with climate change.

The Society's residential mortgage portfolio climate risk exposures are monitored every six months. They are used to help shape the Society's assumptions in future scenario analysis and its approach to risk management. The relative amount of exposure to physical risk on the Society's residential mortgage portfolio remains low, at just over 2% of the total exposure. See the table opposite.

Current Society Physical Risk Exposures

Residential Mortgages	2024*			2023^		
Physical Risk	Number	Exposure £bn	% Book	Number	Exposure £bn	%Book†
Properties classed in the highest flood risk category [1]	2,868	0.37	1.36%	2,657	0.32	1.31%
Properties classed in the highest subsidence risk category [2]	1,276	0.22	0.80%	1,205	0.20	0.81%
Properties at risk of being impacted by coastal erosion [3]	0	-	-	0	-	-

1. Twinn Current Flood Risk Rating 81-100.
2. Twinn Current Subsidence Score 81-100.
3. Twinn Current Coastal Erosion risk.

Notes:
* The figures presented are based on mortgage book data as at 31 December 2024 and physical risk data as at 30 September 2024. As a result, 7,144 properties with a balance of £1.54bn have not been address matched as the physical risk data is from 30 September 2024.
^ The figures presented are based on mortgage book data as at 31 December 2023 and physical risk data as at 30 September 2023. As a result, 7,642 properties with a balance of £1.57bn have not been address matched as the physical risk data is from 30 September 2023.
† The comparative figures for 2023 are restated following a revision to the mortgage book calculation to exclude properties which have not been address matched.

A severe climate forecast for the Representative Concentration Pathway (RCP) 8.5 is presented in the table below.

Society Physical Risk Exposures under RCP 8.5 in 2080						
Residential Mortgages	2024*			2023^		
Physical Risk	Number	Exposure £bn	% Book	Number	Exposure £bn	%Book†
Properties classed in the highest flood risk category [4]	7,124	0.88	3.26%	6,551	0.76	3.10%
Properties classed in the highest subsidence risk category [5]	27,503	6.39	23.73%	25,229	5.60	22.86%
Properties at risk of being impacted by coastal erosion [6]	12	0.00	0.01%	10	0.00	0.01%

4. Twinn Flood Risk Rating 81-100 under RCP 8.5 in 2080.
5. Twinn Subsidence Score 81-100 under RCP 8.5 in 2080.
6. Twinn Probability of Coastal Erosion > 0% under RCP 8.5 in 2080.

Notes:
* The figures presented are based on mortgage book data as at 31 December 2024 and physical risk data as at 30 September 2024. As a result, 7,144 properties with a balance of £1.54bn have not been address matched as the physical risk data is from 30 September 2024.
^ The figures presented are based on mortgage book data as at 31 December 2023 and physical risk data as at September 2023. As a result, 7,642 properties with a balance of £1.57bn have not been address matched as the physical risk data is from 30 September 2023.
† The comparative figures for 2023 are restated following a revision to the mortgage book calculation to exclude properties which have not been address matched.

This is to demonstrate a severe view of the physical climate risk of the Society mortgage portfolio in 2080, which we're monitoring and using in our scenario analysis. This scenario is where there's 'no additional action' taken to mitigate against rising global temperatures, with an increase in excess of 3°C by 2100. For this climate emissions scenario and time period, the physical risk perils which impact UK properties will be much more frequent and more severe.

The flood and coastal erosion exposures increase in the RCP 8.5 severe scenario. Although they remain relatively low overall. The greatest movement between the current and the severe scenario is observed for subsidence risk. Future climate change forecasts identify large areas of London, the South East and the Midlands as having a greater risk of shrink-swell because they are predominantly clay soils. Shrink-swell can cause ground movement which can impact building foundations. This is the most common form of subsidence.

An increased portfolio exposure to London and the South East has slightly increased the Society's subsidence risk during 2024. As detailed in the climate change scenario analysis section, the subsidence risk score is calculated from British Geological Survey data. This data identifies the potential for clay shrink-swell to occur at a given location, during a given future time period, based on a combination of geological, hydrological and climate projections. However, this score does not include the mitigating factor that a property might have foundations built to withstand movement due to shrink-swell.

The Society manages the physical risks from climate change by setting quantitative Credit Risk Appetite limits and applying new lending controls at postcode level for flood risk and coastal erosion. This is discussed earlier in the Risk Management section on page 18.

Energy Performance Certificates

All UK house sales legally require the production of an Energy Performance Certificate (EPC). This measures the energy efficiency of a property based on physical measures such as double glazing and heating systems. A SAP score (Standards Assessment Procedure) is the methodology used by the government to assess and compare performance in more detail, with a value typically from 1 to 100. The methodology for calculating a SAP rating is regularly updated by the Government. SAP 11 is expected to be ready for use as part of the Future Homes Standard to be introduced for new homes built from 2025.

A higher score means a better energy efficiency performance for a property, as below:

A 92+ B 81-91 C 69-80 D 55-68 E 39-54 F 21-38 G 1-20

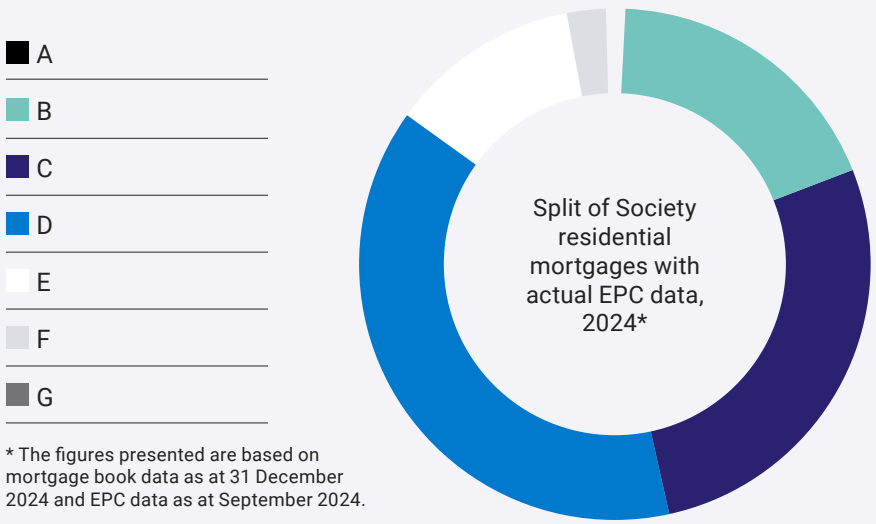
In 2024, we reperformed analysis of the Society's EPC ratings on our UK residential portfolio. This was to understand what the exposures of our current book are regarding the energy efficiency of these properties.

As the pie chart shows, the most common current EPC rating on the Society's residential mortgage portfolio is a D, which is consistent with the rest of the UK. While there have been slight changes by EPC band, the overall SAP score remains unchanged.

Whilst residential mortgages produce the highest total emissions, our closed commercial lending back book has the highest physical and economic intensity metrics. The Society no longer actively lends on commercial properties. However, we continue to monitor our back book which currently stands at £120.8m (2023: £135.2m) and look for any potential opportunities to support these businesses in their own decarbonisation efforts.

Two tables are reported for transparency. The first includes a blend of actual and modelled current EPCs, where the actual EPC is used where it's available, with the remainder modelled by Rightmove. The second is based on actual EPCs only.

The average EPC SAP score for the Society's residential mortgage portfolio has increased slightly between 2023 and 2022 – from a SAP of 65 to 66. Based on actual EPCs it remains unchanged at 66. Overall, it remains an average of a high D.



* The figures presented are based on mortgage book data as at 31 December 2024 and EPC data as at September 2024.

Actual and modelled EPC data

Risk Exposures for Actual and Modelled EPC Ratings for Society Residential Mortgages	2024*			2023^		
Current EPC	Number	Exposure £bn	% Book	Number	Exposure £bn	% Book
A	530	0.11	0.38%	456	0.09	0.36%
B	23,884	4.40	15.43%	22,276	4.03	15.45%
C	46,733	6.99	24.55%	45,974	6.73	25.80%
D	81,673	11.24	39.49%	77,169	9.96	38.20%
E	23,085	3.53	12.39%	20,909	3.06	11.72%
F	3,345	0.55	1.92%	3,242	0.53	2.01%
G	727	0.12	0.42%	707	0.11	0.43%
Unmatched	7,144	1.54	5.42%	7,642	1.57	6.03%

Notes:
* The figures presented are based on mortgage book data as at 31 December 2024 and EPC data as at 30 September 2024. As a result, 7,144 properties with a balance of £1.54bn have not been address matched as the EPC data is from 30 September 2024.
^ The figures presented are based on mortgage book data as at 31 December 2023 and EPC data as at 30 September 2023. As a result, 7,642 properties with a balance of £1.57bn have not been address matched as the EPC data is from 30 September 2023.

Actual EPC data

Risk Exposures for Actual EPC Ratings for Society Residential Mortgages	2024*			2023^		
Current EPC	Number	Exposure £bn	% Book	Number	Exposure £bn	% Book
A	530	0.11	0.47%	456	0.09	0.45%
B	22,955	4.19	18.08%	21,974	3.97	18.68%
C	43,243	6.49	28.04%	39,348	5.67	26.66%
D	59,434	8.94	36.60%	56,584	8.18	38.46%
E	18,277	2.79	12.05%	18,362	2.73	12.81%
F	3,148	0.51	2.25%	3,169	0.51	2.41%
G	727	0.12	0.52%	707	0.11	0.53%

Notes:
* The figures presented are based on mortgage book data as at 31 December 2024 and EPC data as at 30 September 2024. As a result, 38,807 properties with a balance of £5.33bn do not have an actual EPC or have not been address matched as the EPC data is from 30 September 2024.
^ The figures presented are based on mortgage book data as at 31 December 2023 and EPC data as at 30 September 2023. As a result, 37,775 properties with a balance of £4.81bn do not have an actual EPC or have not been address matched as the EPC data is from 30 September 2023.

10. Skipton Group's scope 1, scope 2 and scope 3 GHG emissions

Across the Skipton Group, we collect data on energy consumption and calculate our greenhouse gas (GHG) emissions across the whole value chain (scope 1, 2 and 3 activities). In 2024, we improved the granularity and consistency of reporting across the Group.

Scope 1 and 2 GHG emissions

Our scope 1 and 2 GHG emissions relate to the energy we use to operate our branches and offices, and transport for our employees in owned or operated company vehicles. Most of our operations are based in the UK, with smaller facilities in Australia, Guernsey, Jersey and New Zealand.

In 2024, we reported our Group emissions using both a location-based and market-based method. This allows us to better reflect the energy supply contracts we have in place.

Our scope 1 and 2 location-based emissions have reduced 11% from 2023 and our energy consumption is down 9%. Our market-based emissions have reduced in 2024 due to increased purchasing of electricity from renewable sources now at 86% (2023: 55%). In 2024, we increased the percentage of purchased renewable energy, contributing to a 47% reduction in our total market-based emissions.

Work to lower energy used across our offices and branches has continued throughout 2024, switching to more energy-efficient LED lighting and implementing smart meters.

We aim to purchase renewable electricity tariffs with a renewable energy of guarantee of origin (REGO) for our Group operations and the Society currently purchases a green gas tariff, with renewable gas certification (RGGO).

Group GHG emissions and energy data

Scope 1 and 2 (notes 1 and 2)	Metric detail	2024	2023	2022
Scope 1 — offices, branches and company vehicles	tCO_2e	3,380	4,023	4,848
Scope 2 (location-based) electricity	tCO_2e	5,343	5,772	5,462
Scope 2 (market-based) electricity	tCO_2e	1,231	4,618	5,507
Total scope 1 and 2 energy usage	kWh	42,501,013	46,851,915	50,350,561
Total scope 1 and 2 emissions (location-based)	tCO_2e	8,723	9,794	10,310
Scope 1 and 2 emissions from UK operations	%	99%	99%	99%
Total scope 1 and 2 emissions (market-based)	tCO_2e	4,611	8,640	10,486
Scope 1 and 2 location-based emissions intensity ratio	tCO_2e / £m turnover	5.39	6.30	6.84

Notes:
1. For scope 1 and 2, where actuals data was not available, consumption was estimated using average consumption or proxy data. 2023 data has been restated due to improved data.
2. For market-based emissions where consumption was not on a renewable electricity tariff backed by a REGO certificate or the status was unknown, a residual or location-based factor has been applied. Our renewable gas certificates (RGGOs) are not currently used to count towards any scope 1 emission reductions for either the market- or location-based method.

Scope 3 GHG emissions

Scope 3 emissions tend to form a large part of any organisation's total emissions. For the Group, our scope 3 emissions include those generated from our mortgage lending activity (financed emissions) and those generated through our value chain activity. Skipton Group does not invest in any corporate bonds, and we have no listed equity.

Scope 3 is the dominant scope of emissions for the Group at 97% in 2024.

Collecting data on scope 3 emissions can be particularly challenging as we are required to obtain information from third parties, which may not have such well-established data collection or reporting processes and rely on information which is outside of our direct control.

Estimates of scope 3 value chain emissions

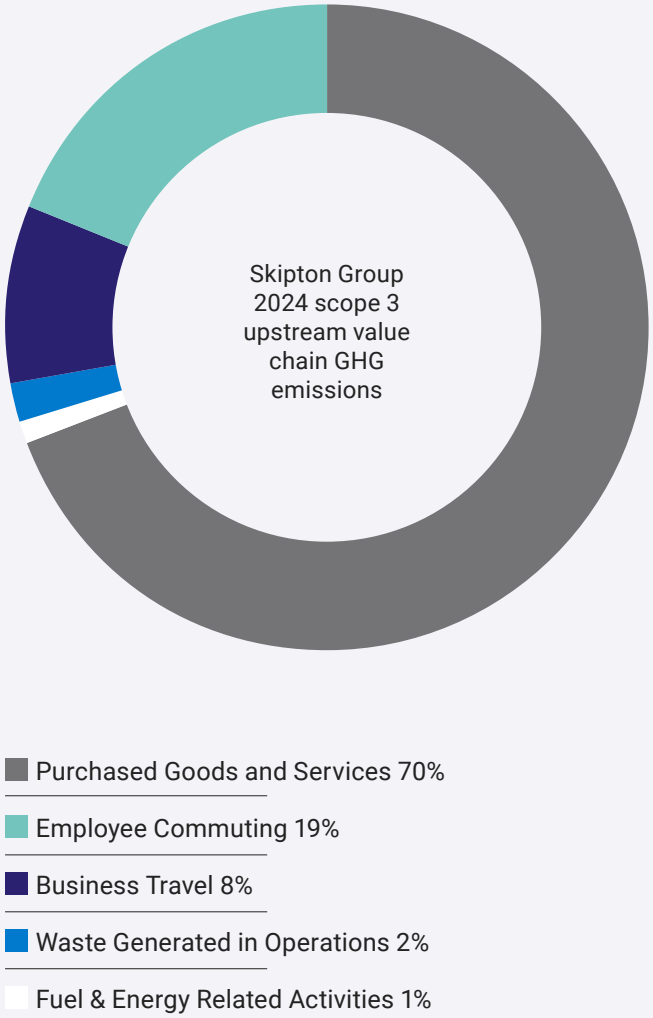
The reporting of scope 3 value chain emissions includes the following upstream GHG Protocol categories: Purchased goods and services (1), Fuel and energy related activities (3), Waste generated in operations (5), Business travel (6) and Employee commuting (7). Categories 2, 4 and 8-14 are not relevant or significant to the overall scope 3 emissions. Please note, that scope 3 value chain emissions have in part been calculated using financial spend data.

Purchased goods and services account for the largest proportion of the Group's upstream value chain emissions at 70%, in 2024. Employee commuting and business travel are the second and third largest category of emissions at 19% and 8% respectively.

In 2025, we plan to work more closely with our most critical suppliers through development of a supplier engagement plan. This work will initially focus on the Society's suppliers and later expand out to the other Group companies. We appreciate that this will require supplier participation and there is a risk that some suppliers may not participate. The data we collect from this will therefore be limited.

Scope 3 upstream value chain	Metric detail	2024	2023 (note 1)
Emissons from categories 1, 3, 5, 6 and 7	tCO_2e	62,729	53,629

Notes:
1. 2023 data has been restated due to corrections in the data methodology.



Scope 3 financed emissions

A key area of focus for us as a Group is understanding the financed emissions we generate through our residential and commercial lending (Society and SIL). Financed emissions from mortgage lending were 81% of our total Group scope 3 emissions. The Skipton Group does not invest in any corporate bonds, and we have no listed equity.

Financed emissions are calculated using the GHG Protocol Partnership for Carbon Accounting Financials (PCAF) methodology to estimate CO_2e emissions. The PCAF method is widely considered to be the financial services industry standard for calculating scope 3 financed emissions. To understand what proportion of the property's emissions are financed, an attribution of emissions for each mortgaged property is calculated based on the property's remaining loan-to-value (LTV – calculation based on the ratio of the outstanding balance on the loan, versus the value at origination)[2]. This is considered alongside annual emissions associated with the financed property, estimated using actual EPC data, or when not available, modelled EPC data.

We report scope 3 data covering financed emissions arising from our lending activity for our residential and commercial mortgage portfolios. Our assessment is based on a 30 September snapshot for both EPC data and the mortgage balances for each reporting year.

[2] If the original value is not feasible to obtain the first fixed valuation amount is used. If this is not available, the current valuation amount is used.

Scope 3 financed emissions - Group residential mortgages (note 1)	Metric detail	2024	2023
Residential financed emissions based on LTV	tCO_2e	258,888	231,052
Number of properties with EPC		156,970	148,105
Number of properties without EPC data		36,335	34,676
Financed emissions from properties with EPCs (note 2)	tCO_2e	167,439	163,597
Financed emissions from properties without EPC data	tCO_2e	91,449	67,455
Emissions intensity	$kgCo_2e/m^2$	13.46	12.67
PCAF weighted data score		3.19	3.19

Notes:
1. The estimated scope 3 financed emissions have been calculated based on an annual 30 September snapshot basis, using the GHG Protocol Partnership for Carbon Accounting Financials (PCAF 2019) standard and using PCAF's emission factors. The financed emissions data for 2023 data has been restated due to application of an improved methodology for modelled EPCs and floor area data. The LTV attribution ratio applied in this method is based on an original valuation.
2. Due to differences in methodology between the physical risk data and the financed emissions, the number of properties with EPCs figures will slightly differ.

The residential financed emissions have increased 12% in 2024, due to an overall growth in the total mortgage book value and a slight increase in the LTV ratio. As at September 2024, 81% of properties in the residential mortgage book had an EPC, accounting for 65% of the emissions, the remaining 19% of properties account for 35% of the GHG emissions.

In line with our overall approach to net zero, we are tracking our financed emissions intensity ($kgCO_2e/m^2$) of our residential mortgage lending. In 2024, our emissions intensity slightly increased, due to a slight increase in the LTV attribution factor.

To provide insight into the quality of the data, a weighted data score has been calculated for the emissions, using PCAF's GHG Accounting and Reporting Standard. These are rated between 1 and 5, where 1 is the highest and 5 the lowest. Residential mortgages receive a weighted data score of 3.19 in 2024, due to the availability of actual EPC and modelled EPC data. Commercial properties, due to a lack of EPC data, receive a weighted data score of 5.

Residential mortgages account for the majority (99.75%) of scope 3 financed mortgage emissions. The Society no longer offers new commercial mortgages. As a result, existing mortgages reaching maturity is the reason for the fall in emissions in the commercial category in 2024, with this likely to stay the case in future years.

Scope 3 financed emissions - Group commercial mortgages (note 1)	Metric detail	2024	2023 (note 2)
Estimated LTV attributed financed emissions - mortgage lending from commercial mortgage portfolio	tCO_2e	8,229	10,050

Notes:
1. The estimated scope 3 financed emissions have been calculated based on an annual 30 September snapshot basis, using the GHG Protocol Partnership for Carbon Accounting Financials (PCAF 2019) standard and using PCAF's emission factors.
2. The financed emissions data for 2023 has been restated due to corrections in the data methodology.

We continuously look for opportunities to improve the accuracy of data available. Improving access to accurate data will help us to further understand the action we can take to influence decarbonisation.

Invoice financing

Our invoice financing business, Skipton Business Finance (SBF), supports UK small businesses by providing working capital to a variety of industry sectors. These include transport and distribution, manufacturing, recruitment, and commercial services provision.

SBF have estimated their financed emissions. There is currently no accepted methodology for invoice factoring, so an approach based on the outstanding invoice amount and an emissions factor based on scope 3 purchasing goods and services, has been used as a proxy.

In 2024 the estimated financed emissions from invoice factoring was 30,233 tCO_2e.

11. The targets used to manage climate-related risks and opportunities and performance against targets

During 2024, a Group-wide net zero approach has been approved by the board to reduce GHG emissions, in line with net zero by 2050, or earlier. In practise this approach means the development of plans and near-term targets for our Group scope 1 and 2, and relevant scope 3 value chain emissions. For our scope 3 financed emissions, we have an ambition to reduce the financed emissions intensity ($kgCO_2e/m^2$) of our residential mortgage portfolio, in line with net zero by 2050, and will publish and track our progress each year against this pathway.

We recognise, to reach our net zero ambition, there are many factors and uncertainties beyond our control. They require the involvement of others, including policy makers, governments, suppliers, members and customers. This may impact our ability to meet our climate-related targets or at least make them more challenging – so there's a risk that all or some of them will not be achieved. We acknowledge that a large element of scope 3 reductions are outside of our direct control. As such, it may not be possible to fully achieve financed emission reduction targets without direct policy direction or government mandated reforms. However, we continue to focus our efforts on transitioning the factors within our control.

Overview of data limitations

The following notes on data assumptions apply:

- The following third parties provide energy consumption data and independently calculate scope 1 and 2 emissions across the Group: Envantage and Catalyst Digital Energy. Whilst reasonable steps have been taken to ensure that the information provided is correct, their information may be incomplete, inaccurate or may have become out of date.
- GHG emissions reporting is based on the principles of the GHG Protocol methodology.
- Envantage and the Energy Savings Trust (EST) independently calculated our scope 3 value chain emissions.
- Envantage independently calculate the Group's financed emissions from their mortgage portfolios, based on the GHG Protocol PCAF standard and applying the PCAF emission factors.
- Envantage has applied the UK DESNZ conversion factors.
- Where metered or invoiced data was unavailable, consumption of electricity or natural gas for missing periods was estimated or proxy data used.
- The availability of accurate, verifiable, reliable, consistent and comparable climate data is crucial to our climate journey, including modelling our carbon emissions and risk exposures, setting our strategy, metrics and targets and monitoring progress. It is important to recognise the current limitations in the climate data available to inform these decisions and processes, and therefore our reliance on several assumptions, judgements and projections as a result.

Addressing the climate crisis is not something the Skipton Group or any individual organisation can do on its own. Being clear about the risks in achieving our ambitions is important to us. There are many factors and uncertainties beyond our control. These include the macroeconomic environment, the extent and pace of climate change, and the effectiveness of the actions of others, including policy makers. These uncertainties will make it challenging for the Group to meet its climate ambitions and targets, so there is a risk that all or some of them will not be achieved.

We plan to continue to review available data sources and enhance our methodology and processes to improve the robustness of our reporting over time, aligned with emerging developments.

Disclaimers

- This report has been prepared for information and reference purposes only; it does not provide any form of legal, tax, investment, accounting, financial or other advice.
- The preparation of this report requires the application of several key judgements, assumptions and estimates to be made. There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently be inaccurate.
- This report uses models, external data and other sources/methodologies, each of which are subject to ongoing adjustment and modifications beyond our control. The outputs of these sources can be materially affected by the quality of the underlying data used and the availability of high-quality historical and current data on emissions is currently a challenge. They may therefore be subject to uncertainties affecting the accuracy of their outputs.
- Reasonable care has been taken in the preparation of this report. However, to the extent permitted by law, Skipton Group does not guarantee and has not independently verified for fairness, accuracy, reliability, reasonableness or completeness the information from third party or public sources. Any opinions or conclusions from third parties in this report are their own and do not necessarily reflect Skipton Group's views.
- The quality of the data relied upon in ESG reporting is often not yet of the same standard as more traditional financial reporting and therefore presents an inherent limitation to the ESG performance reported in this report.
- This report and the information contained within it is unaudited.
- This report and any information contained or otherwise accessible through the websites mentioned in this report are historical and only speak as of their respective date. Except to the extent legally required, Skipton Group is under no obligation to update these materials.
- Reported numbers and projections reflect the best estimates and judgements made in good faith at the date of this report and forward-looking metrics will be inherently uncertain and subject to external factors.
- Forward-looking statements, particularly those regarding ambitions, metrics, targets, goals, strategy, scenario analysis and estimated climate projections and emissions, are generally not based on historical facts, but instead represent management's beliefs at the date prepared regarding future events, current plans, expectations and projections, and are subject to significant inherent risks, uncertainties and other factors which may result in Skipton being unable to achieve the current ambitions implied by such forward-looking statements.
- There is a risk that the outputs may be misinterpreted or misused when dealing with concepts which are being developed and updated by regulators, governments and industry bodies, such as climate-related disclosures and other sustainability-related matters. This is due to the lack of established market standards, historical data/ reference points and benchmark data, particularly as is the case for climate change and how it is developing.
- Changes and the development of accounting and/or reporting standards could materially impact the performance metrics, data points and targets contained in this report. We expect policies, regulatory requirements, standards and definitions to be developed and evolve. Regular review of the available data sources will be conducted to enhance our methodology and processes to improve the robustness of the performance disclosed over time.
- As standards and practices evolve, it may mean subsequent reports do not allow a reader to compare performance metrics, data points or targets from one reporting period to another, on a direct like-by-like basis.

Glossary

Key Terms	Definition
Climate-related risk	Climate-related risk refers to the potential negative impact that climate and environmental changes present to our business model.
EPC	Stands for Energy Performance Certificate. It is related to an energy rating scheme which identifies a household's energy efficiency level. EPC scores range from least efficient (G) to most efficient (A) on a scale.
EPC Plus Report	The Society's product for members and colleagues in partnership with Vibrant Energy. The service provides an EPC report with recommendations of energy-efficient improvements you could make to your home, the cost of carrying them out, and the potential savings that each one could generate. While Vibrant Energy Matters provides advice to Society members in relation to retrofitting, the Skipton Group do not require Society members to act on this advice and continue to work closely with members to allow products to remain accessible and affordable.
Financed emissions	These are the greenhouse gas emissions associated with the investments and lending activities of an organisation (Scope 3 Category 15).
Greenhouse Gases (GHG)	Gases which absorb and re-emit infrared radiation, thereby trapping it in Earth's atmosphere. It includes carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6), and nitrogen trifluoride (NF_3). These emissions add to the greenhouse effect — a contributor to climate change.
Net zero	Net zero is where the amount of greenhouse gases (GHGs) released into the earth's atmosphere is balanced by the amount of GHGs removed.
Physical climate risks	Physical risk arises from the impact of extreme weather events (e.g. flooding) or longer-term shifts in the climate. It is widely accepted that climate change will accelerate these risks. The main physical transition risks facing the Society's lending portfolio are flooding, subsidence and coastal erosion.

Key Terms	Definition
Risk Appetite	This covers the level of risk the Group is willing to take in order to safeguard the interests of the Society's members, whilst achieving business objectives.
Scenario Analysis	Scenario analysis is the process of identifying and assessing the potential impact of outcomes of future events.
Scope 1 emissions	Under the Greenhouse Gas Protocol methodology, scope 1 emissions include emissions generated from sources under the direct control of an organisation. For example, emissions from combustion of fuel or oil for heating offices.
Scope 2 emissions	Under the Greenhouse Gas Protocol methodology, scope 2 emissions include those generated from the purchase of electricity.
Scope 3 emissions	Under the Greenhouse Gas Protocol methodology, scope 3 includes all indirect emissions. These result from the activities of the organisation, but not in their direct control. This includes areas like leased assets, suppliers and colleague commuting.
Transition risks	Transition risk arises from the process of adjusting to a low carbon economy. Examples of its impact could include financial asset values, policy, regulation and technology.
tCO_2e	This stands for metric tonnes of carbon dioxide equivalent. It is a standard unit for measuring greenhouse gas emissions, accounting for the different greenhouse gases using a single factor.
Value chain emissions	These are the greenhouse gas emissions associated with the indirect upstream and downstream activities of an organisation. Within this report, our value chain emissions are reported for the following GHG Protocol categories: Purchased goods and services (1), Fuel- and energy-related activities (3), Waste generated in operations (5), Business travel (6), and Employee commuting (7). Category 15 finance emissions are reported separately.

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